Sharing a Shrinking Pie

Public Spending and Political Coalitions in the Global Financial Periphery

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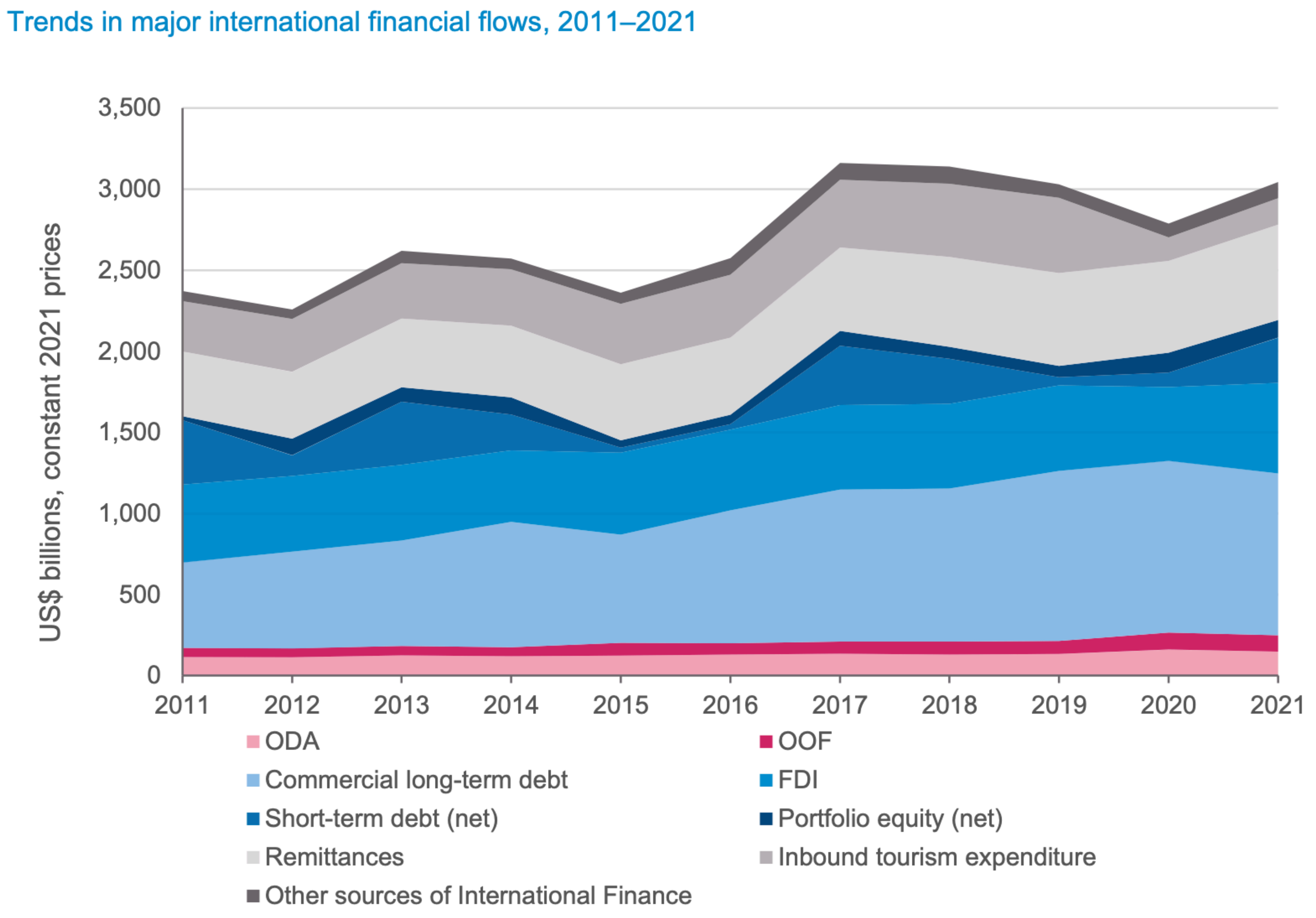
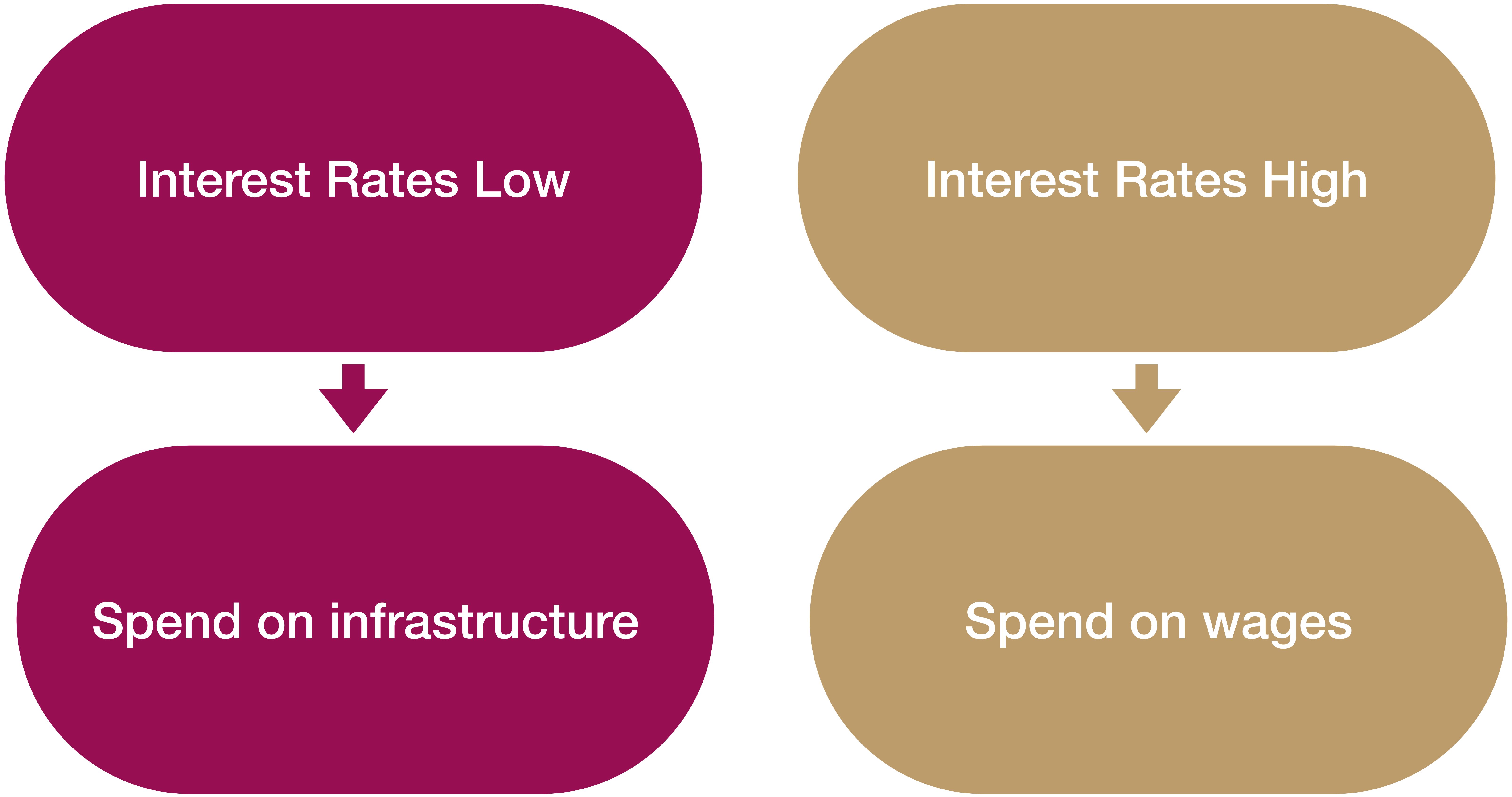
Debt funds development

- Developing countries are in an *age of choice*. They can access finance from donors, development banks, alternative lenders, markets (international and domestic)
- The interest rates that countries pay on loans reflect global capital cycles, not country-specific information (Rey, 2015, Brooks et al, 2015, Cormier & Naqvi 2023)
- Government's budget constraint changes with global cycles, not local policies.
- Rising borrowing costs constrain infrastructure more than wage spending.



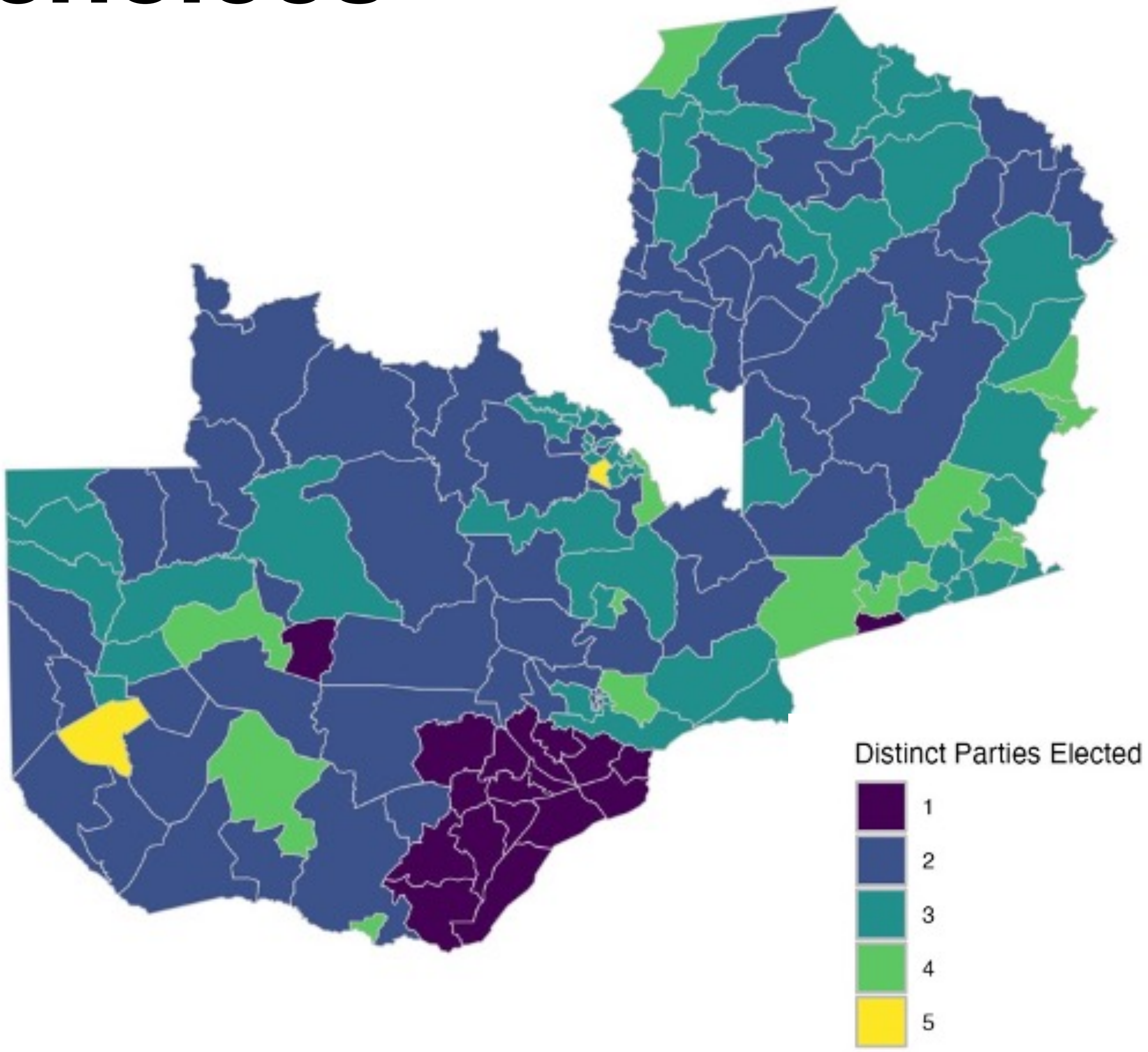
Aid is a small and borrowing a big part of financial flows to developing countries

Theory


Interest Rates Low
Spend on infrastructure
Interest Rates High
Spend on wages

Democracy constrains choices

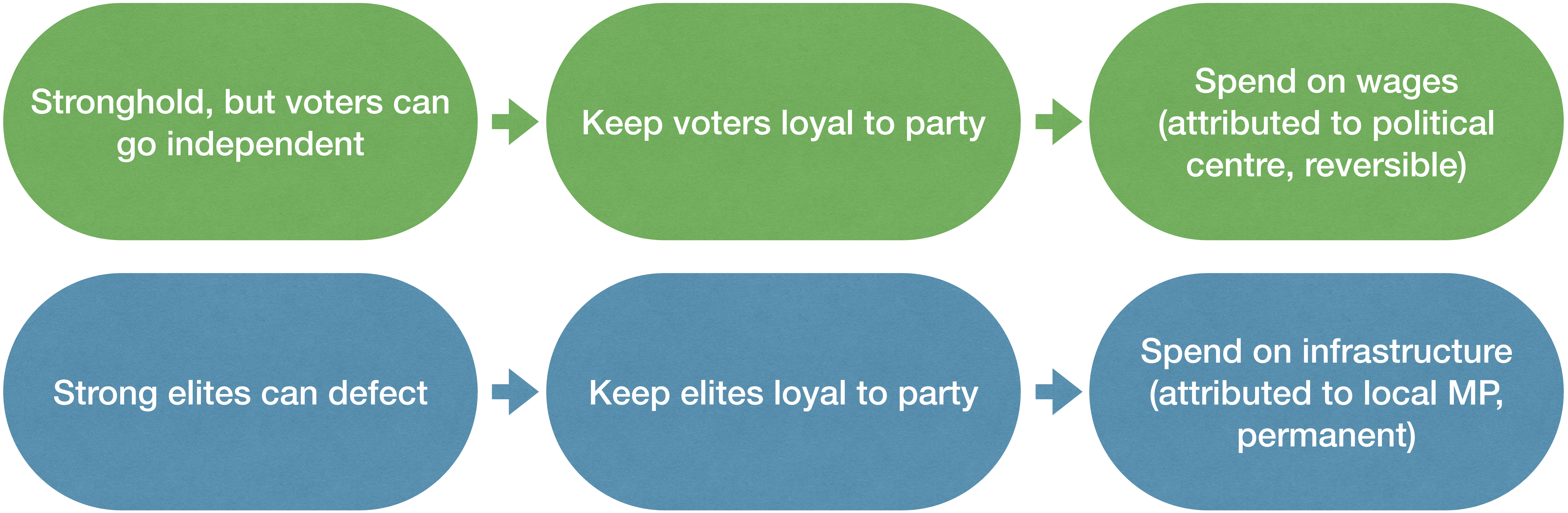
- Competitive elections are here to stay.
- Ethnic voting blocs are insufficient in an age of multiparty competition (Arriola, 2012, Boone, 2024).
- Leaders have regional strongholds, but need to make inroads elsewhere.
- in strongholds, they must keep voters loyal.
- Outside strongholds, they must win over strong politicians.



Attribution varies by sector

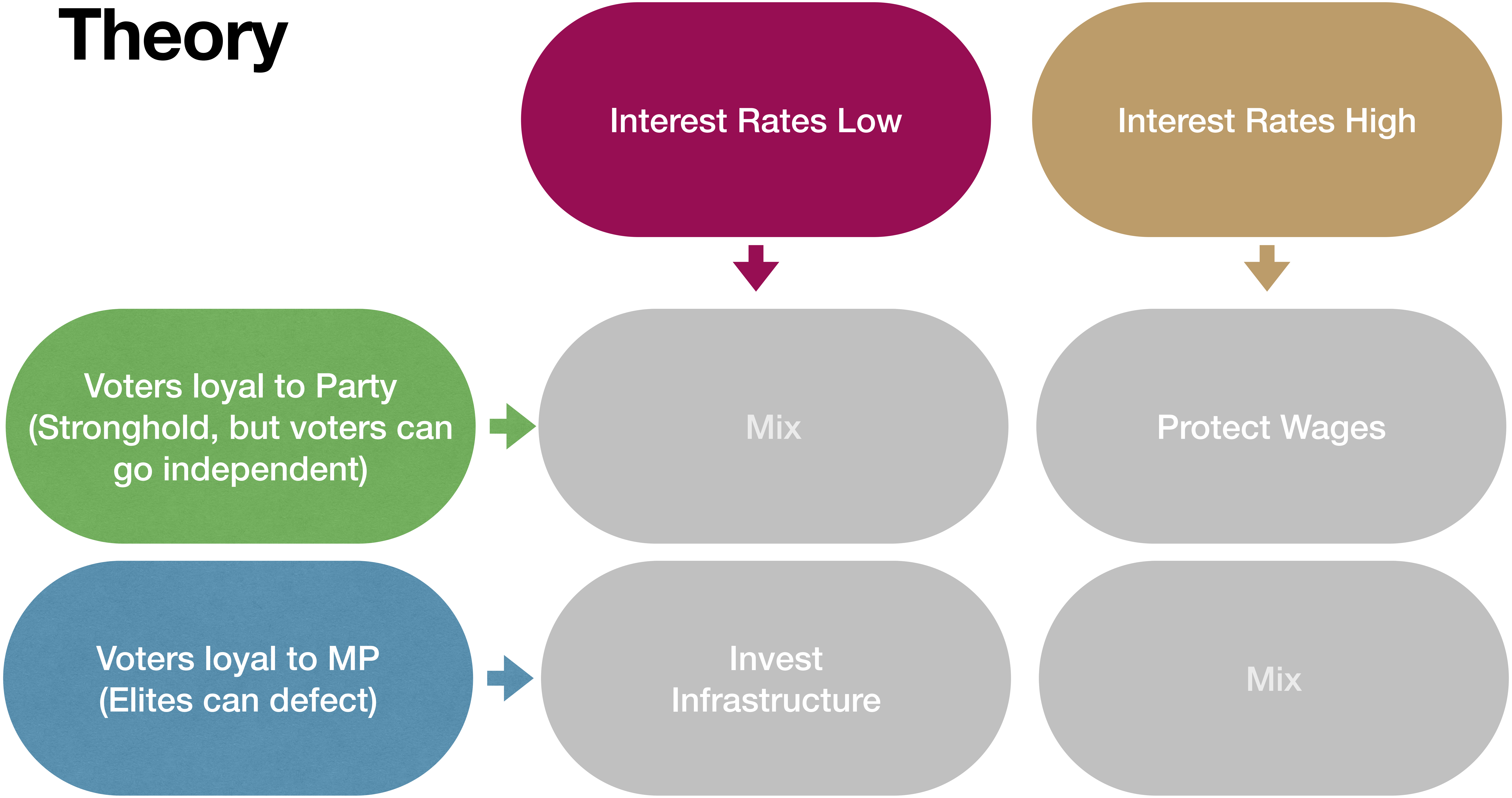
- What strategies do parties use?
  - Reward core supporters (Mason, Jayne, van de Walle, 2017; Stokes, 2013; Ejdemyr et al, 2018; Briggs, 2014)
  - Convince swing supporters (Stokes, 2005; Schady, 2009)
  - It depends…on sector, party, country, regime (Kramon and Posner, 2013; Burgess et al, 2015; Albertus, 2013; Briggs, 2021)
- **Attribution Matters**
  - Roads and buildings are attributed to the local MP
  - Jobs and service delivery are attributed to the centre

Theory



See *Kasara 2007, Choi 2018, Albertus 2013*

Theory


Interest Rates Low
Interest Rates High
Voters loyal to Party (Stronghold, but voters can go independent)
Mix
Protect Wages
Voters loyal to MP (Elites can defect)
Invest Infrastructure
Mix

Hypotheses

- H1: Stronger politicians will receive more funding for infrastructure
- H2: Weaker politicians will receive more funding for salaries in their districts.

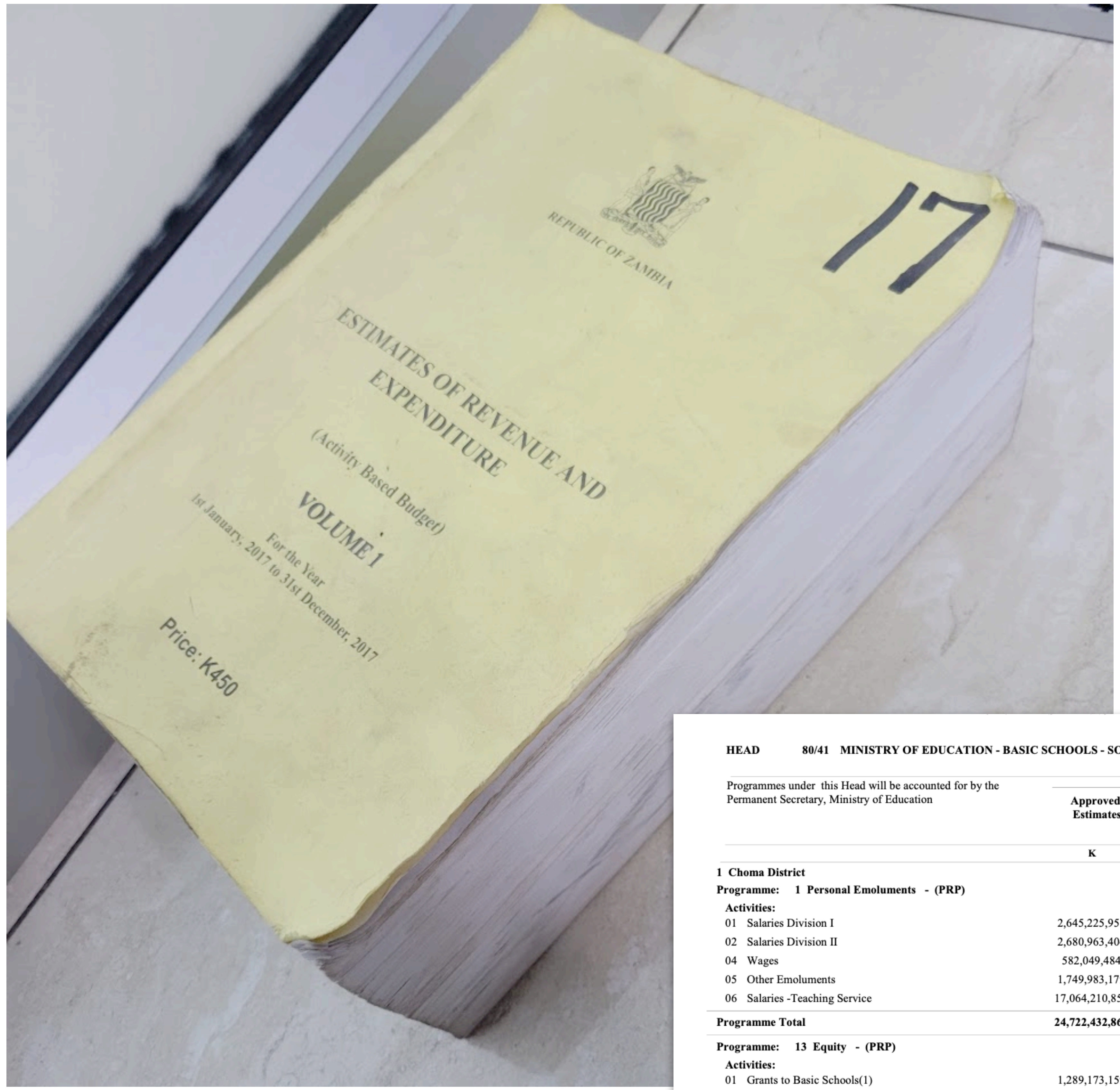
- H3: Rising borrowing costs will be associated with lower infrastructure spending
- H4: Rising borrowing costs will be associated with higher wage spending

- H5: High borrowing costs lead to reallocation of infrastructure spending to stronger politicians.
- H6: High borrowing costs lead to reallocation of wage spending to loyal voters.

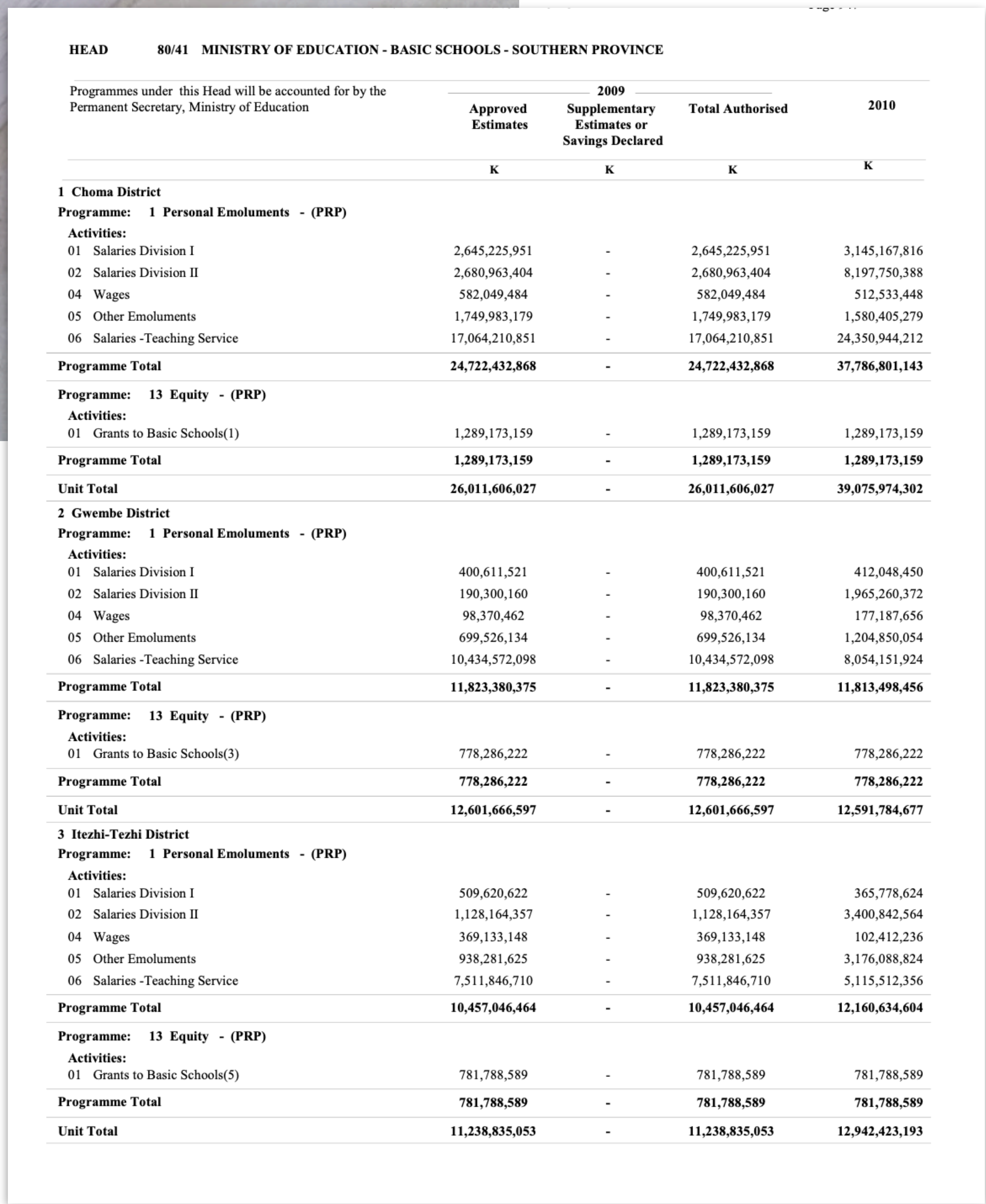
Data

DV: Subnational Expenditures on Wages and Infrastructure

- Budget Yellow Books 2006-2020
- 27,961 pages with 383,666 budget lines
- District level information spending across sectors: health, education, agriculture, administration
- Extract wage and infrastructure spending
- Grouped by constituency



2017 Yellow book (Vol 1)



HEAD 80/41 MINISTRY OF EDUCATION - BASIC SCHOOLS - SOUTHERN PROVINCE

Programmes under this Head will be accounted for by the Permanent Secretary, Ministry of Education	2009 Approved Estimates	2009 Supplementary Estimates or Savings Declared	2009 Total Authorised	2010
	K	K	K	K
1 Choma District				
Programme: 1 Personal Emoluments - (PRP)				
Activities:				
01 Salaries Division I	2,645,225,951	-	2,645,225,951	3,145,167,816
02 Salaries Division II	2,680,963,404	-	2,680,963,404	8,197,750,388
04 Wages	582,049,484	-	582,049,484	512,533,448
05 Other Emoluments	1,749,983,179	-	1,749,983,179	1,580,405,279
06 Salaries -Teaching Service	17,064,210,851	-	17,064,210,851	24,350,944,212
Programme Total	**24,722,432,868**	**-**	**24,722,432,868**	**37,786,801,143**
Programme: 13 Equity - (PRP)				
Activities:				
01 Grants to Basic Schools(1)	1,289,173,159	-	1,289,173,159	1,289,173,159
Programme Total	**1,289,173,159**	**-**	**1,289,173,159**	**1,289,173,159**
Unit Total	**26,011,606,027**	**-**	**26,011,606,027**	**39,075,974,302**
2 Gwembe District				
Programme: 1 Personal Emoluments - (PRP)				
Activities:				
01 Salaries Division I	400,611,521	-	400,611,521	412,048,450
02 Salaries Division II	190,300,160	-	190,300,160	1,965,260,372
04 Wages	98,370,462	-	98,370,462	177,187,656
05 Other Emoluments	699,526,134	-	699,526,134	1,204,850,054
06 Salaries -Teaching Service	10,434,572,098	-	10,434,572,098	8,054,151,924
Programme Total	**11,823,380,375**	**-**	**11,823,380,375**	**11,813,498,456**
Programme: 13 Equity - (PRP)				
Activities:				
01 Grants to Basic Schools(3)	778,286,222	-	778,286,222	778,286,222
Programme Total	**778,286,222**	**-**	**778,286,222**	**778,286,222**
Unit Total	**12,601,666,597**	**-**	**12,601,666,597**	**12,591,784,677**
3 Itezhi-Tezhi District				
Programme: 1 Personal Emoluments - (PRP)				
Activities:				
01 Salaries Division I	509,620,622	-	509,620,622	365,778,624
02 Salaries Division II	1,128,164,357	-	1,128,164,357	3,400,842,564
04 Wages	369,133,148	-	369,133,148	102,412,236
05 Other Emoluments	938,281,625	-	938,281,625	3,176,088,824
06 Salaries -Teaching Service	7,511,846,710	-	7,511,846,710	5,115,512,356
Programme Total	**10,457,046,464**	**-**	**10,457,046,464**	**12,160,634,604**
Programme: 13 Equity - (PRP)				
Activities:				
01 Grants to Basic Schools(5)	781,788,589	-	781,788,589	781,788,589
Programme Total	**781,788,589**	**-**	**781,788,589**	**781,788,589**
Unit Total	**11,238,835,053**	**-**	**11,238,835,053**	**12,942,423,193**

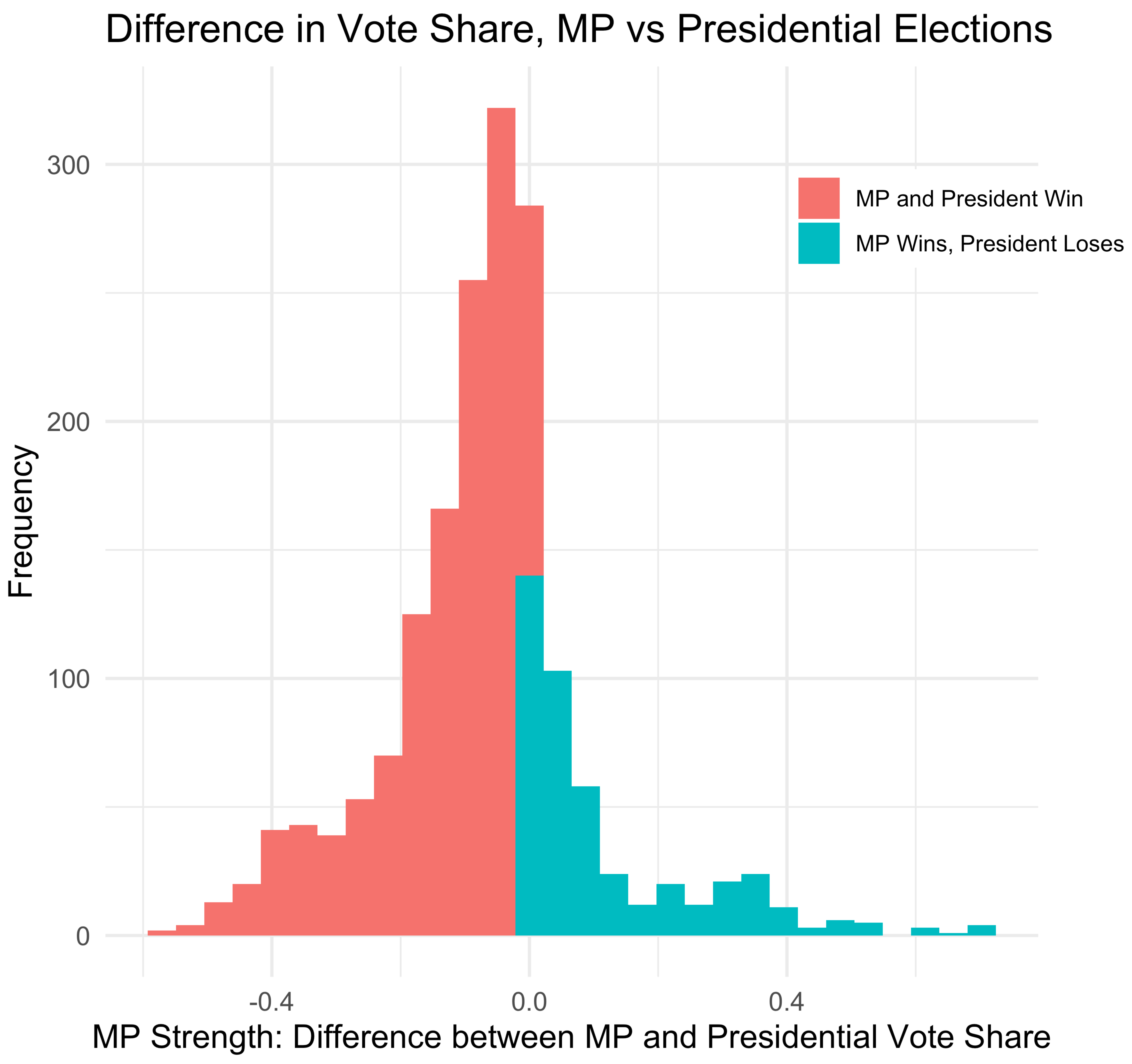
MP Strength

Explanatory Variable

- Difference between MP and Presidential vote share.

Examples:

- MP: 60% President: 50% →10%
- MP: 60%, President: 80% → -20%
- Blue shows cases where MP won for their party despite that party not winning presidential vote.



MP Strength

Low leverage Politician (Stronghold)

“When we were doing the primaries and the like, I won...then some provincial officials and a few district officials decided to replace me. And the constituency chairman and his team…supported me that I should run as an independent.

And then they had to bring actually the national management people, had to come to campaign to help that guy. To get him across the line. So that is the only way they managed to beat me.”

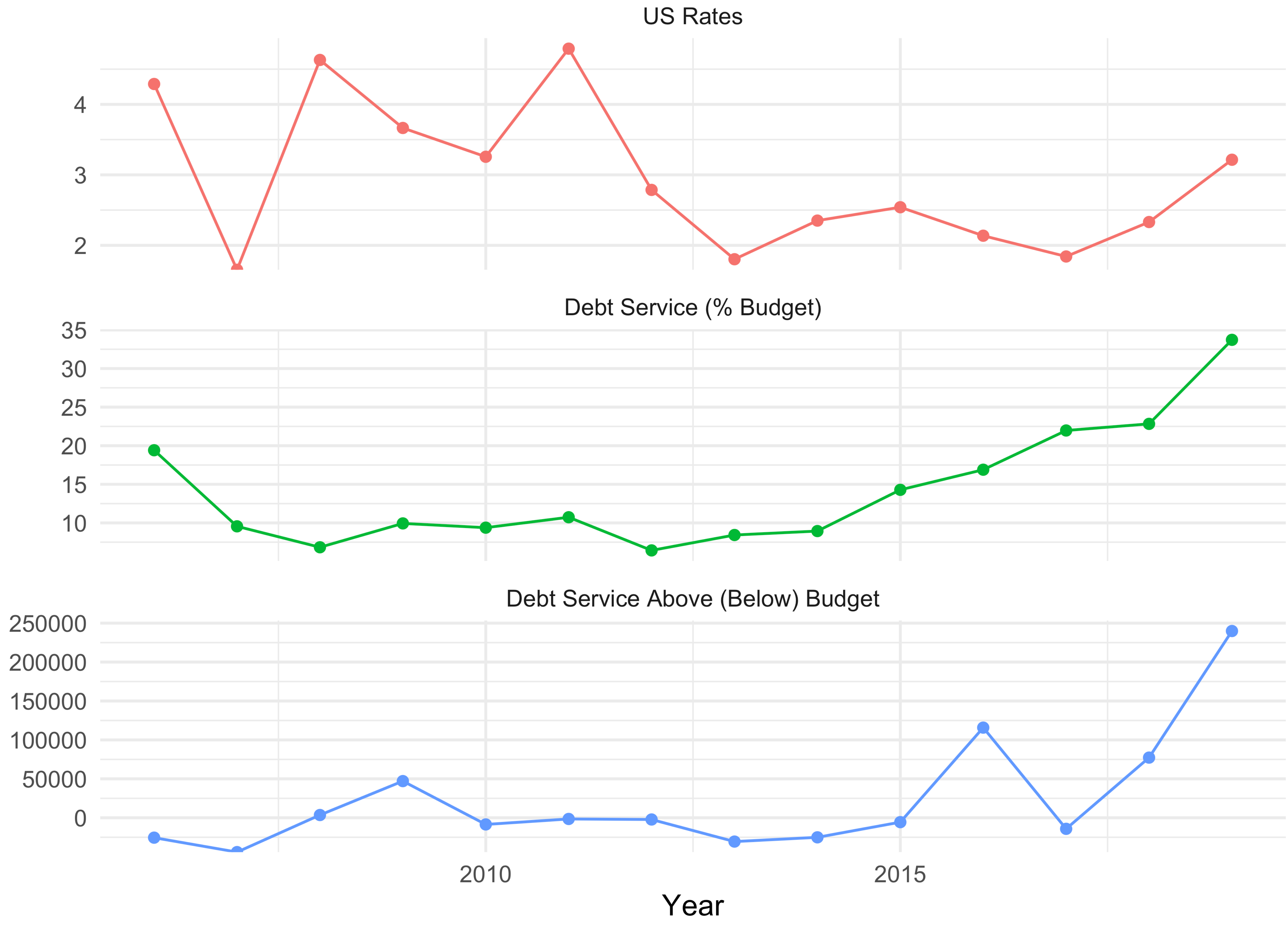
High Leverage Politician (Swing)

“When I was competing for the first time in 2006, my president lost. But I won. So, what it is that, sometimes the electorate go beyond the party, right? They concentrate on individuals.”

Borrowing Cost

Explanatory Variable

- Interest rate on 10 year US treasury bonds *(exogenous)*
- Debt service as a percent of GDP *(salient, accounts for debt stock)*
- Debt service about central Bank target *(both)*



Setup

OLS with an interaction term

- Unit is Constituency-year, 156 constituencies, 2006-2019

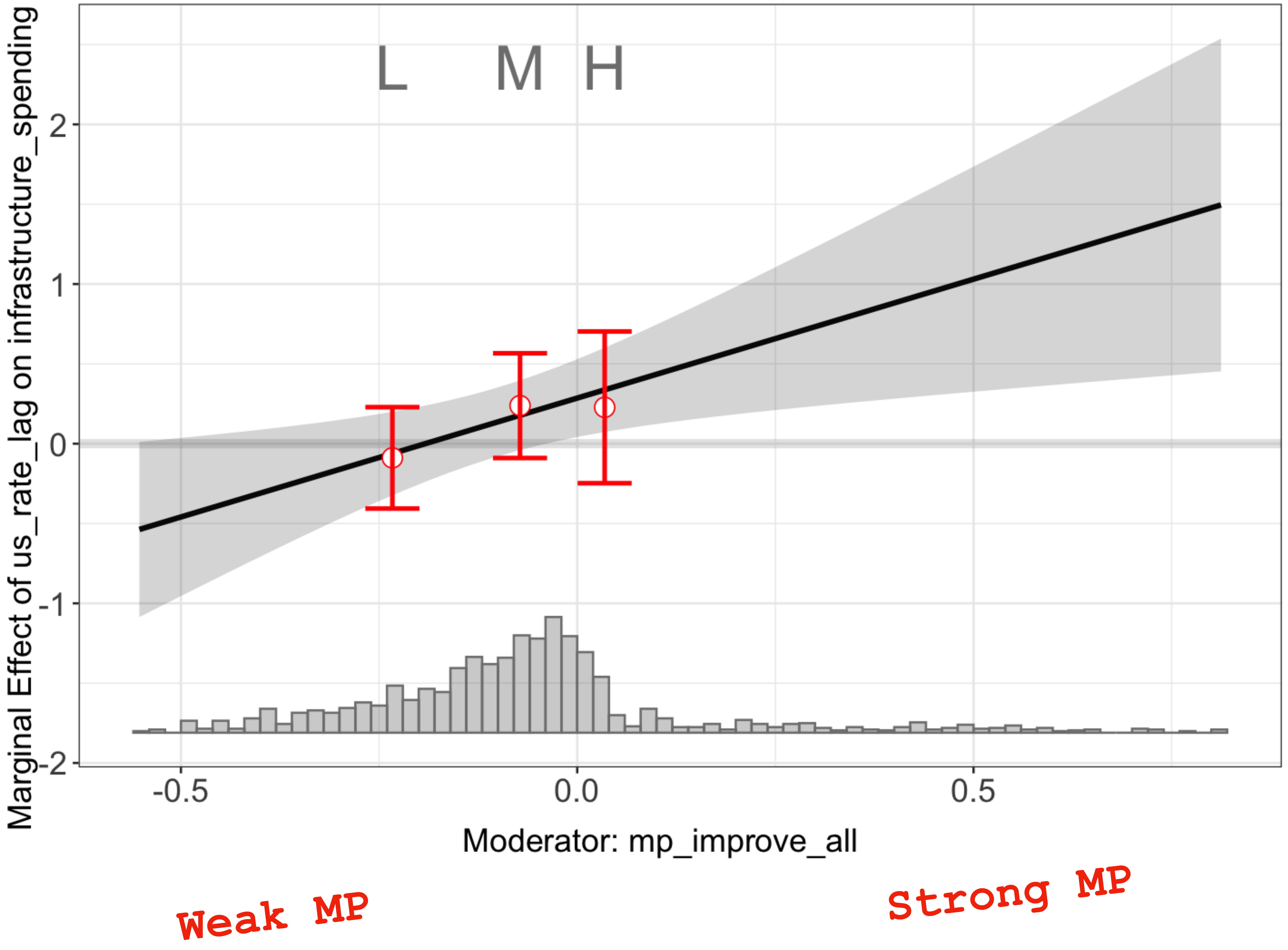
$$
\begin{aligned}
Spending_{it} = {} & \beta_0 + \beta_1 Strength_{it} + \beta_2 Interest_{t-1} + \beta_3 Strength_{it} * Interest_{t-1} \\
& + \beta_4 Nightlights_{it} + \beta_5 Ruling_{it} + \beta_6 Copper_{t-1} + \theta Constituency_i + \epsilon_{it}
\end{aligned}
$$

- Dependent Variable: **Spending** (Wage or Infrastructure)
- Explanatory Variables: **MP Strength, Interest Rates, Strength × Interest**
- Controls: **Nightlights, Ruling Party, Copper Price, Constituency**

Results: Infrastructure

When rates rise…

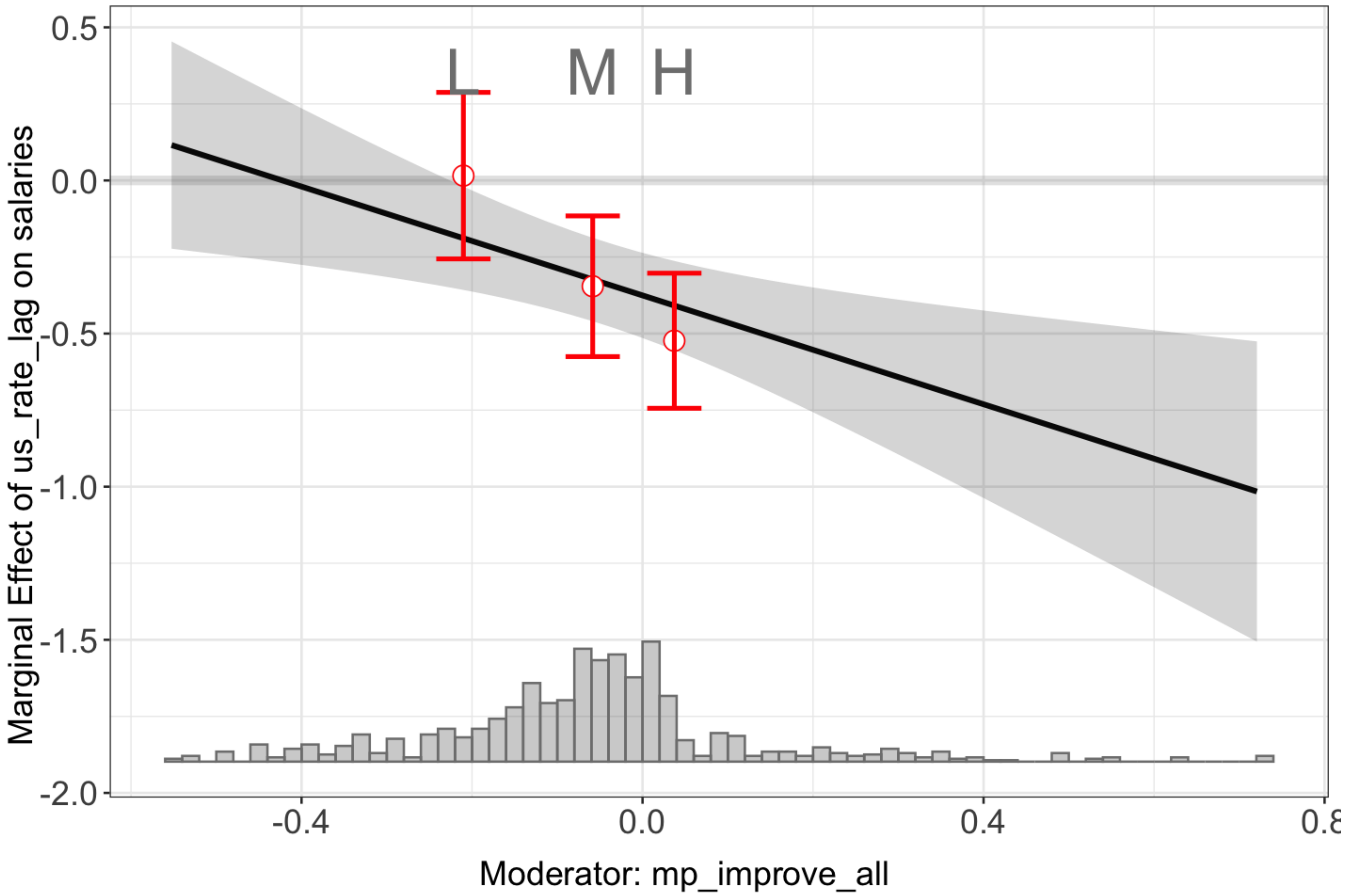
- Weak MPs get less infrastructure
- Strong MPs get more infrastructure



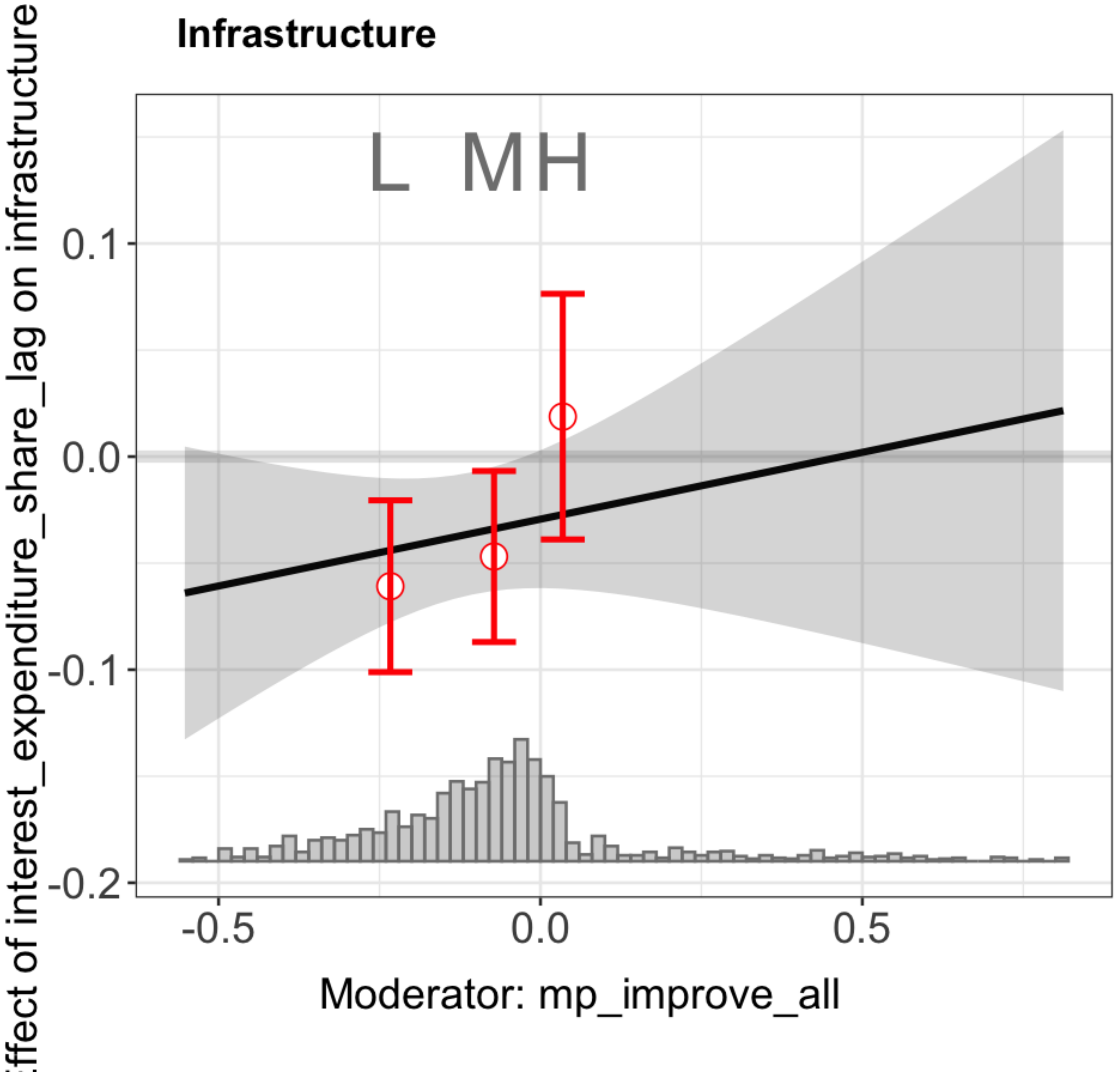
Results: Wages

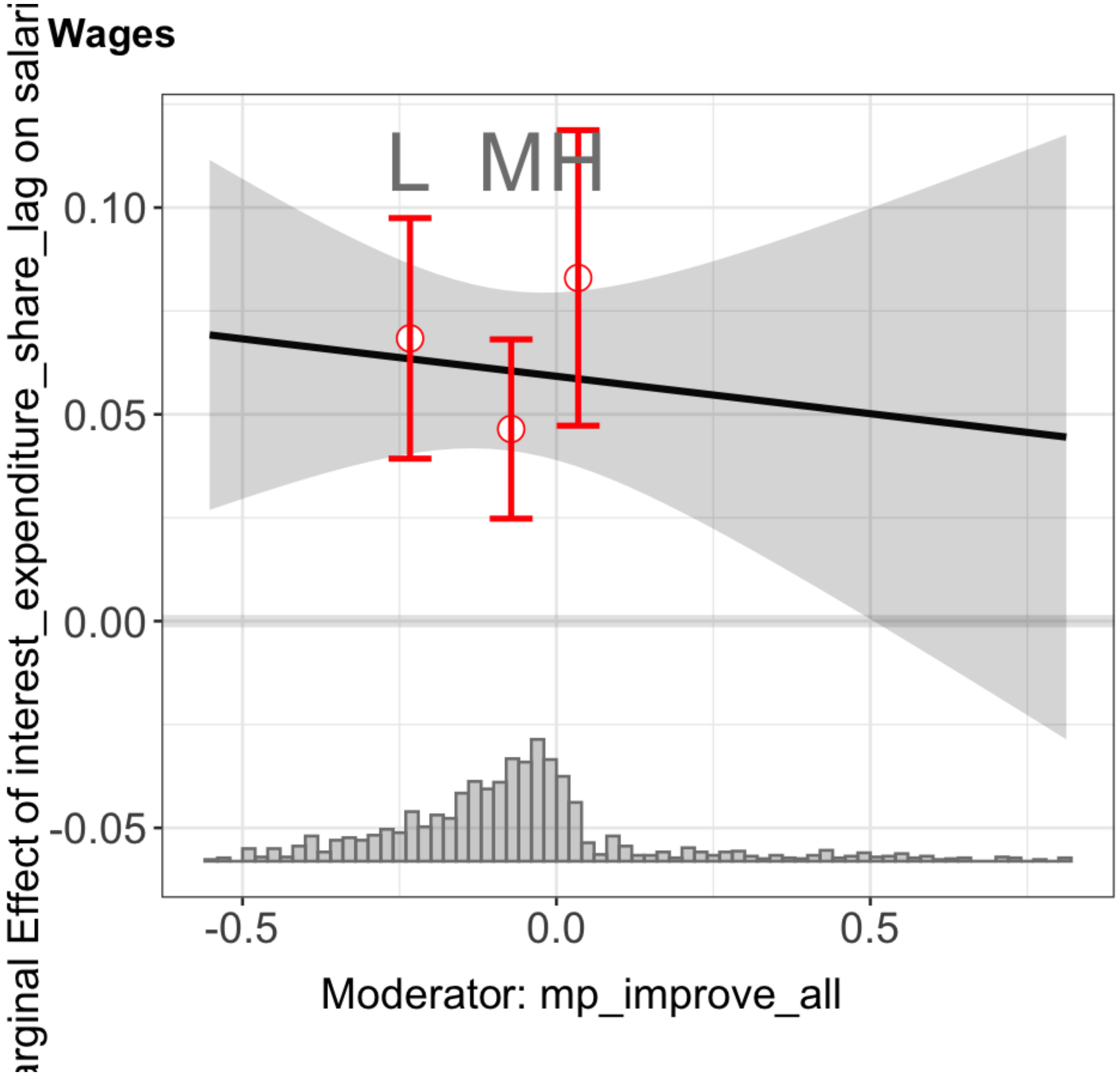
When rates rise…

- Weak MPs get no change in wages (protected)
- Strong MPs get less wage spending

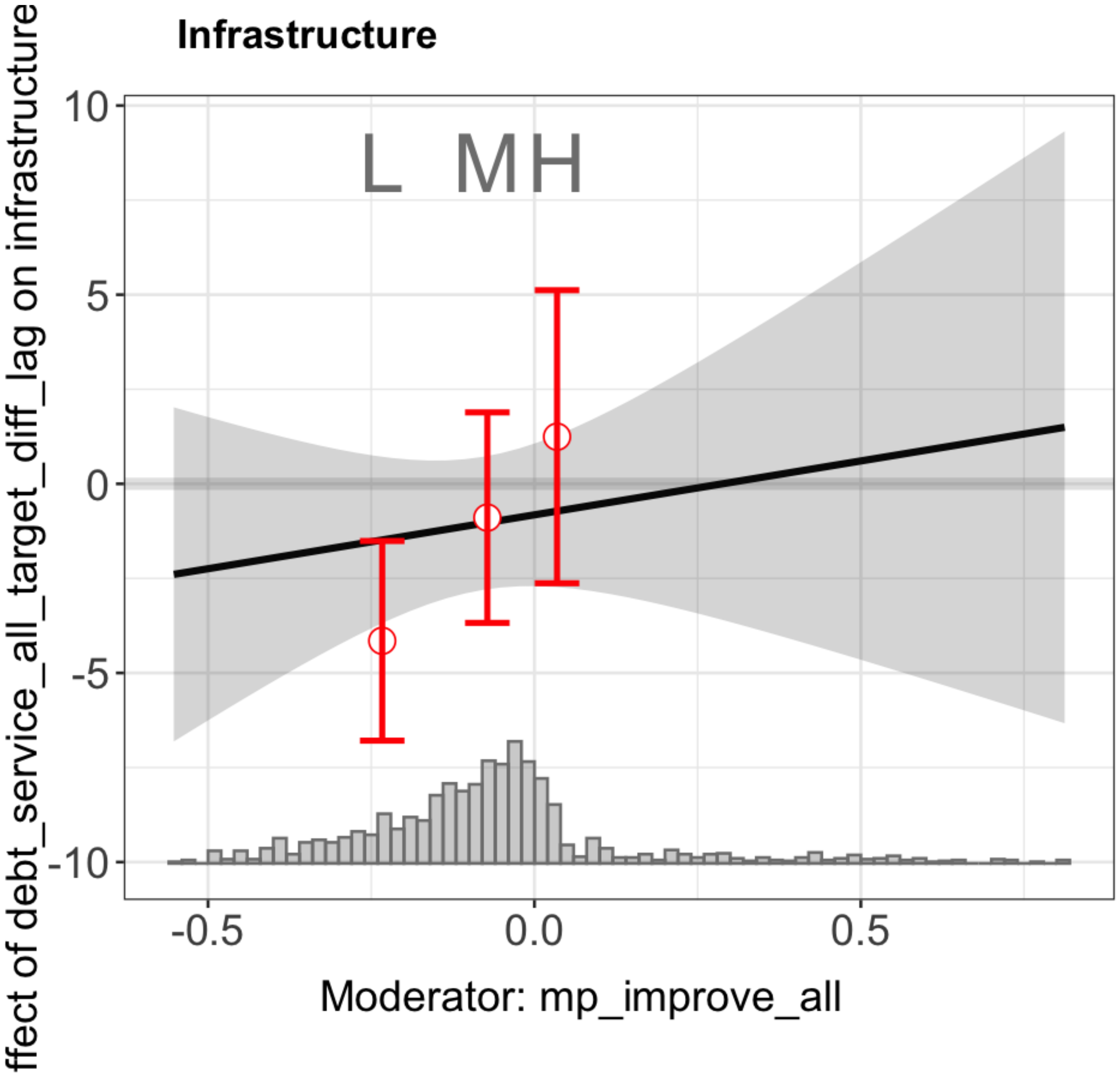


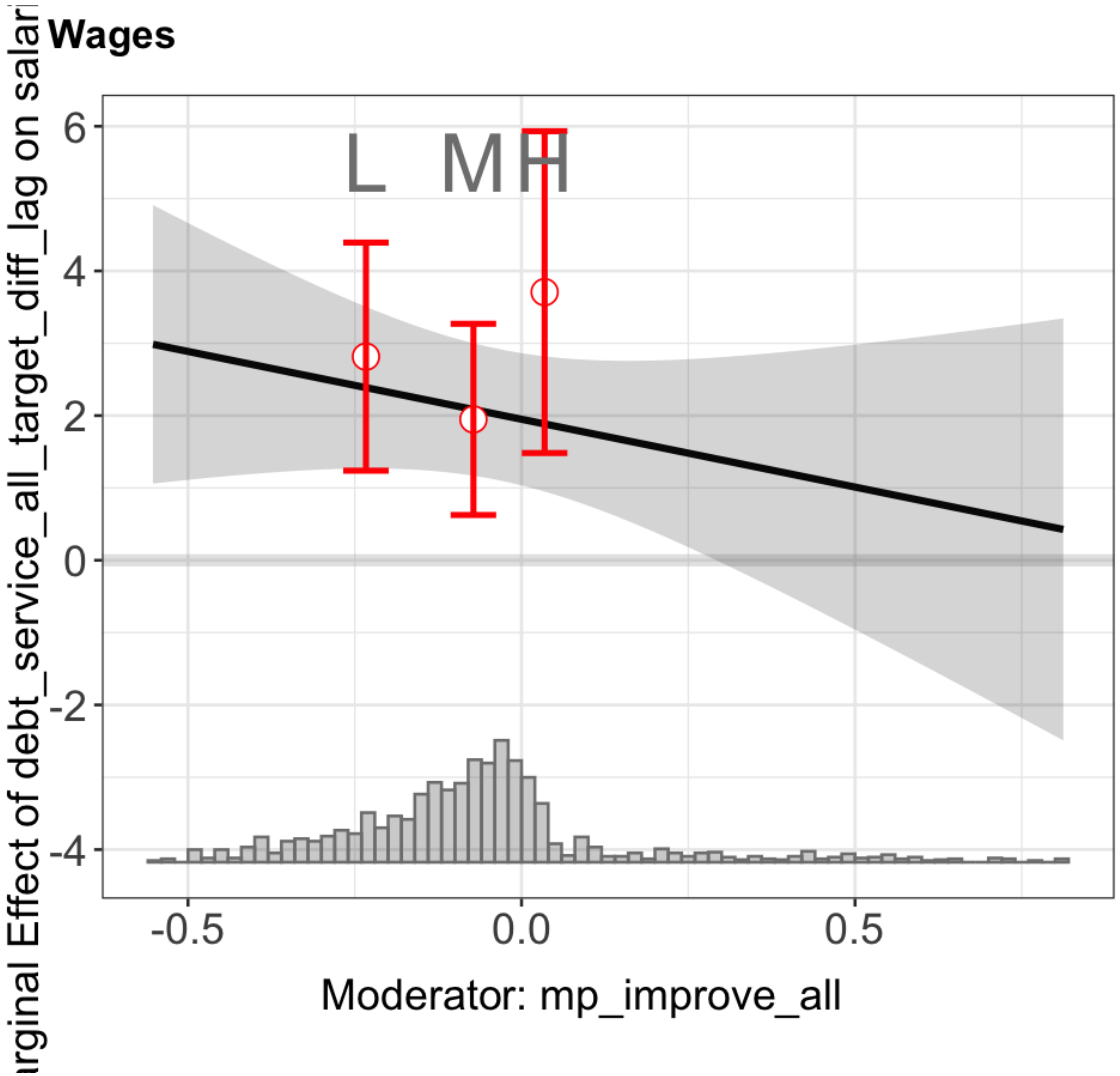
Debt Service





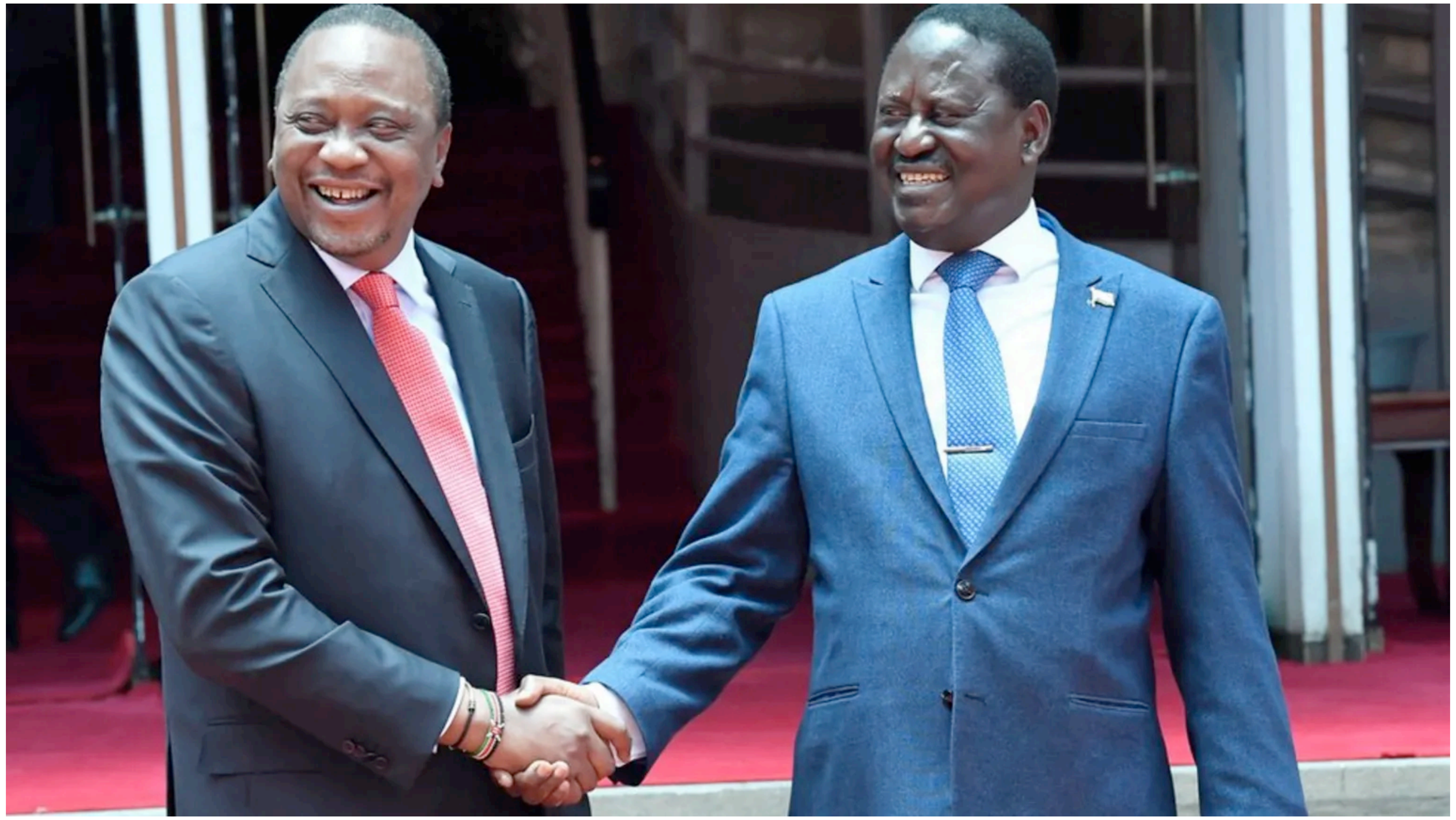
Changes in Debt servicing





Kenya

ODM Pentagon, 2007

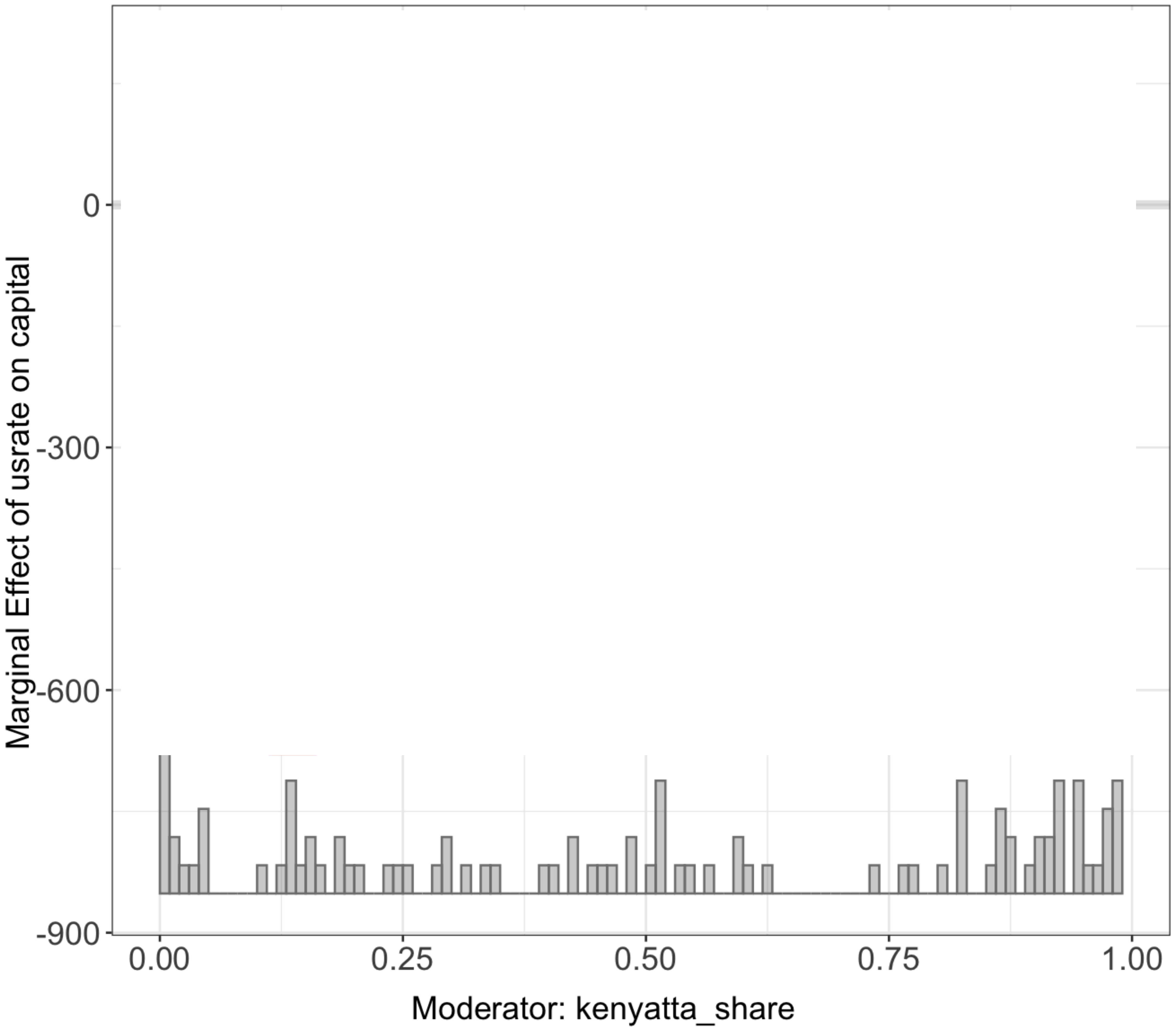


2018 Handshake: Kenyatta (L) and Odinga (R)

Kenya

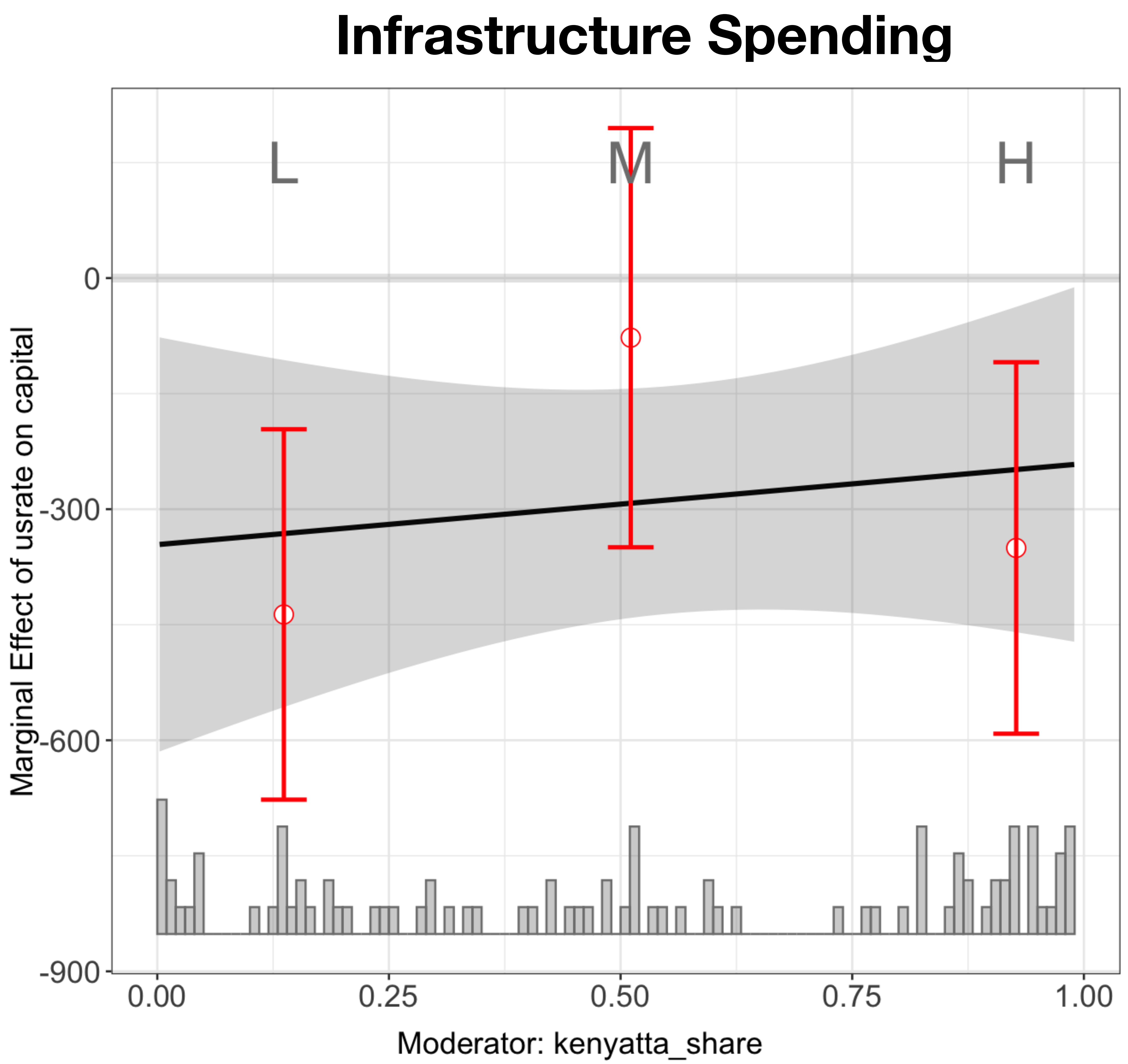
- County level spending data means we can't run identical models.

Infrastructure Spending



Kenya

- County level spending data means we can't run identical models.
- Nonetheless, when rates rise, there is less infrastructure.
- But only in places where everyone votes one way or another. In the middle, there's no cuts.



Debt and Democracy in the Global Periphery

- In developing democracies, governments use resources for to build and maintain coalitions.
- Different kinds of spending do different kinds of political work.
- In the *periphery* debt costs are volatile, and governments are adapting strategically.